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INTERNATIONAL BUSINESS ENVIRONMENT

Francis Cherunilam

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International Business Environment

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PREFACE TO THE EIGHTH EDITION

This book has been drafted in accordance with the syllabus of *International Business Environment and Management/International Business Environment* of the MBA/MIB courses as suggested by the UGC Model Curriculum.

This edition is characterised by:

- Updating of data throughout the text.
- Significant modification of several chapters, including restructuring and addition of new materials.
- Addition of new tables, figures and boxes.

The author expresses his gratitude to the academic community and the Himalaya Publishing House Pvt. Ltd. for the constant encouragement.

Cochin, **Dr. Francis Cherunilam**
October 18, 2018

PREFACE TO THE FIRST EDITION

This author brought out his first book *Business and Government* in 1982, pioneered *Business Environment* in 1985 and presented *Global Economy and Business Environment*, his 25th book, in 2001. These titles reflect the transition of the business environment in India over the decades. Under the old controlled regime of licence-permit raj, the competition between businessmen was to please the politicians and bureaucrats to procure licences and permits and not to entice and excite the consumers. Companies produced and marketed what was permitted and consumers bought what was available. Consumers could hardly be demanding and companies hardly wanted to be, and could not much be, innovative and challenging. In such a strictly government ordered environment, *Business and Government*, naturally, was a core subject in the Management courses. The Indian market, however, was undergoing a gradual change triggered by the socio-cultural and economic dynamics, and, as a consequence, the broader *Business Environment* gained place over the narrow *Business and Government* in the curricula.

With the progressive liberalisation and surging globalisation, business environment has been increasingly becoming international, in several dimensions, even for local firms. And *the Model Curriculum* brought out by the UGC has introduced *International Business Environment and Management/International Business Environment* for the MBA/MIB courses.

This book has been prepared in accordance with the syllabi of *International Business Environment and Management/International Business Environment* of the MBA/MIB courses embodied in the *UGC Model Curriculum.*

I have enormously benefited by the help from a number persons. The strenuousness of this work was eased by the wholehearted support of Mr. K.C. Radhakrisnan and Ms Elizabeth Abraham, librarians, and other members of the staff of the library of School of Management Studies, Cochin University of Science and Technology – Ms Deepika, Mr. Surendran and Mr. Ashraf. I am very grateful to all my colleagues, students and staff of our office and typing pool and Mr. Paul of the Computer Lab. I remember with gratitude the suggestions and good wishes of friends in other Universities and Institutes. My son, Jithin, has rendered considerable assistance to process the draft. My daughters, Jewel and Jwala and my wife have also contributed their mite.

I would like to place on record my gratitude to Sri D.P. Pandey, Niraj Pandey and K.N. Pandey of Himalaya Publishing House Pvt. Ltd. whose constant encouragement made me work untiringly.

And no words to thank the Almighty for the profuse blessings.

Cochin, **Dr. Francis Cherunilam**
August 15, 2003

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SIGNIFICANCE, NATURE AND SCOPE OF INTERNATIONAL BUSINESS

GROWING RELEVANCE OF INTERNATIONAL BUSINESS

Even for many local firms, the business environment is international. For example, a tiny shopkeeper who vends self-made juices, including *nimbu pani*, encounters competition from multinational brands (some of which he himself would be selling). In other words, business is increasingly becoming international or global in its competitive environment, orientation, content and strategic intent. This is manifested/necessitated/facilitated by the following facts:

- The competition a firm — local, national or foreign — now encounters, in many cases, is global, i.e., besides the competition from the domestic firms, it has to compete with products manufactured in India by foreign firms and imports.
- Because of the liberalisation, a firm has the challenging opportunity to improve its competitiveness and scope of business by global sourcing of technology, materials, finance, human resources, etc.
- Globalisation is facilitating globalisation of operations management to optimise operations and to improve competitiveness. Global value chain management is indeed a key factor of success.
- The universal liberalisation and the resultant global market opportunities are taken advantage of by firms to consolidate and expand the business. The growing competition at home is pushing many companies overseas.
- The global orientation of an increasing number of companies is evident from their mission statements and corporate strategies.

There is growing internationalisation of business environment.

The points mentioned above indicate that the universal liberalisation has thrown up new threats and opportunities necessitating global orientation for survival and growth. The sweeping political and consequent economic policy changes in the erstwhile communist and socialist countries, dramatic shifts in the economic policies in a large number of countries as diverse as communist countries like China to democratic countries like India, privatisation in a number of market economies and the liberalisation of trade and investment fostered by the GATT/WTO have set in motion several forces of globalisation so that *the world is flat*.

The emerging business environment tends to defy distinction between domestic and international business. The business environment is characterized by timeless, seamless, and universal information flow at hardly any cost and a borderless flow of goods, services, technology and capital/finance. The situation is very well adumbrated by Thomas L Friedman, author of well-known books like *The Lexus and the Olive Tree, The World is Flat*, etc., when he defines globalisation as follows: "It is the inexorable integration of markets, nation-states and technologies to a degree never witnessed before – in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, faster, deeper, cheaper than ever before."[1]

And globalisation seems to be irreversible and unstoppable so that globalisation is not an option; it is a reality. If it is an option, it is an inevitable option. The challenge, therefore, to the individuals, businesses and nations is to endeavour to take advantage of the benefits of globalisation and mitigate the adverse effects.

As management guru Peter Drucker cautions in his *Management Challenges for the 21st Century,* "all institutions have to make *global competitiveness* a strategic goal. No institution, whether a business, a university or a hospital, can hope to survive, let alone to succeed, unless it measures up to the standards set by the leaders in its field, any place in the world,"[2] because as Keegan rightly puts it, "a company that fails to go global is in the danger of losing its domestic business to competitors with lower costs, greater experience, better products and, in a nutshell, more value for the customer."[3] No wonder, globalisation is progressing fast and international business is growing rapidly.

NATURE AND DIMENSIONS OF INTERNATIONAL BUSINESS

Globalisation, in its true sense, is a way of corporate life necessitated, facilitated and nourished by the transnationalisation of the world economy and developed by corporate strategies. Globalisation is an attitude of mind — it is a mindset which views the entire world as a single market so that the corporate strategy is based on the dynamics of the global business environment. International marketing or international investment does not amount to globalisation unless it is the result of such a global orientation.

Globalisation involves optimising operations to achieve the strategic objectives of the organisation, meeting the global challenges.

Globalisation encompasses the following:

- Doing, or planning to expand, business globally.
- Giving up the distinction between the domestic market and foreign market and developing a global outlook of the business.
- Locating the production and other physical facilities on a consideration of the global business dynamics, irrespective of national considerations.
- Basing product development and production planning on the global market considerations.
- Global sourcing of factors of production, i.e., raw materials, components, machinery/ technology, finance, etc., are obtained from the best sources anywhere in the world.
- Global orientation of organisational structure and management culture.

Companies which have adopted a global outlook stop "thinking of themselves as national marketers who venture abroad and start thinking of themselves as global marketers. The top management and staff are involved in the planning of worldwide manufacturing facilities, marketing policies, financial flows and logistical systems. The global operating units report directly to the chief executive or executive committee, not to the head of an international division. Executives are trained in worldwide operations, not just domestic or international. Management is recruited from many countries, components and supplies are purchased where they can be obtained at the least cost, and investments are made where the anticipated returns are the greatest."[4]

A truly global corporation views the entire world as a single market — it does not differentiate between domestic market and foreign markets. In other words, there is nothing like a home market and foreign market — there is only one market, the global market. Many companies in India too have taken such a global orientation as described above. Consider, for example, *Renovision on the Art of Global Dominance* of the Arvind Mills given below:

Globalisation can encompass the globalisation of all functional areas of management.

- Source raw materials wherever they are cheapest.
- Manufacture wherever in the world is most cost-effective.
- Sell in those global markets where prices are highest.
- Raise finances globally.

❑ Forge international strategic alliances.

❑ To manage all these, take on the best talent from all over the world.

And you will have achieved the stature of a true multinational.

TYPES OF INTERNATIONAL BUSINESS

Types of international business ranges from performing any function/process of the value chain internationally to undertaking the whole thing internationally.

International business encompasses activities of different nature. Important ones include the following:

Trading: Import and export of goods and services have been growing very fast, as pointed out elsewhere in this book. In countries like Japan, there are international trading houses which transact enormous volume of business. The Export Houses, Trading Houses, Star Trading Houses, and Superstar Trading Houses of India are merchant exporters — they buy and resell goods. They are comparatively small in size compared to the giant trading houses of Japan.

Manufacturing and Marketing: The Manufacturer Exporters are those who export goods manufactured by them. Many MNCs and other firms — small and large — do manufacturing and marketing.

Sourcing and Marketing: There are many MNCs and other firms which outsource the products which they market at home and/or abroad.

Global Sourcing for Production: There are many firms which source globally their raw materials, intermediates, etc., required for their manufacturing.

Services: Service is an enormous and fast growing sector of international business. There is a large variety of services rendered internationally. The broad segments include tourism and transportation, IT, banking insurance, consultancy, etc.

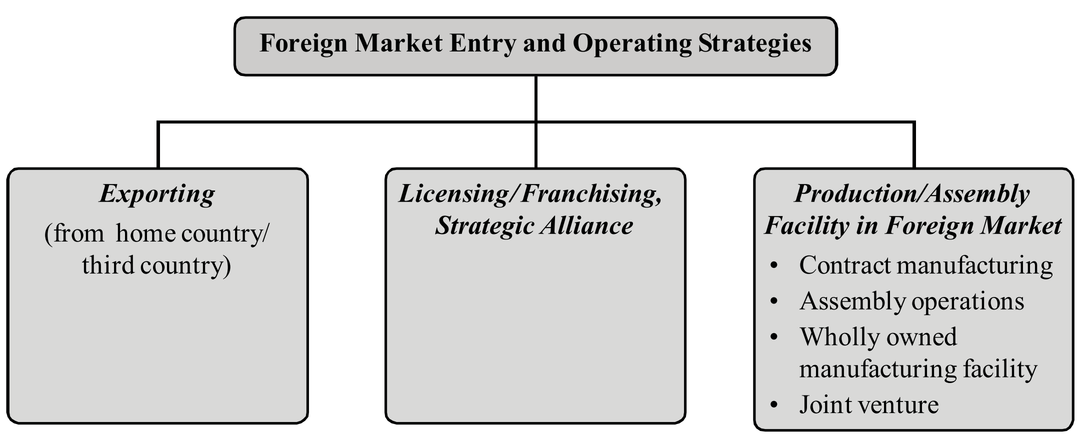
Investments: International Portfolio Investment has been growing fast, as a result of globalisation. FDIs are associated with establishment of manufacturing/marketing facilities abroad.

The market entry and operating forms presented below indicate some of the important modes of international business.

Market Entry and Operating Forms

With reference to the foreign market entry and operating strategies, the following types (Figure 1.1) of international business may be distinguished.

FIGURE 1.1 FOREIGN MARKET ENTRY AND OPERATING FORMS



IMPORTANCE OF INTERNATIONAL BUSINESS

Indicators of Growing Importance of International Business

The growing importance of international business is reflected in several macroeconomic and microeconomic indicators. [The statistics given in this session are mostly from *International Trade Reviews* by WTO, *Trade and Development Reports* by UNIDO and *World Investment Reports* by UNCTAD].

Indicators of internationalisation have risen substantially since 1990.

1. Foreign Trade-GDP Ratio

The foreign trade-GDP ratio (i.e., the value of foreign trade expressed as percentage of the GDP) has risen significantly over the last several decades, indicating that national economies are becoming more and more export and import dependent. In other words, a growing proportion of the national output is meant for sale abroad and a growing share of the national consumption is met by imports. In the last twenty-five years or so, world merchandise exports have doubled from 10 per cent to 20 per cent of the world GDP. That is, about 25 years ago, on an average about one-tenth of the domestic product of a nation was meant to be sold and consumed in foreign countries; today about one-fifth of the domestic product is destined to the foreign markets. Similarly, the proportion of the domestic consumption met by goods and services produced abroad has been on the increase. For a long period, the rate of growth of foreign trade has been much faster (nearly double than that of the global GDP.

2. Export Intensity

A connotation of the growing export-GDP ratio is that the export intensity (i.e., exports as a share of the total sales) of companies in general are rising. A rising export intensity means that the foreign business is growing faster than the domestic business. This is true of several Indian industries. For example, a number of pharmaceutical firms have grown at much higher rates in the foreign markets than in India. The auto components industry recently registered a higher growth in the foreign market than the domestic growth.

Many firms make most of their business, like the leading IT firms such as TCS, Infosys, Wipro, etc. and several pharmaceutical firms, from foreign markets. There are companies which do 100 per cent of their business abroad.

3. International Investments

International investments, both direct (FDI) and portfolio (FPI), have been growing rapidly. International investment, in fact, has been growing much faster than international trade which has been growing faster than the world output. The expansion of international investment, facilitated by the almost universal liberalisation, has resulted in a substantial increase in their role in global production, employment generation and trade.

During the 25 years (1990-2015), global FDI inflows increased 8.5 times (from $207 billion to $1762 billion). Correspondingly, FDI outflows also increased steeply.

In 1990, FDI inflows amounted to less than 1 per cent of the global GDP. In 2015, it was 2.4 per cent.

The FDI to developing countries has risen very fast. During 1986-1990, the share of developing countries in the global FDI inflows was much less than 20 per cent, but in recent years, it was around 50 per cent.

4. FDI-GFCF Ratio

The role of FDI in the economic development and international production is indicated by the increase in the FDI-gross fixed capital formation (GFCF) ratio, i.e., FDI's contribution to GCF.

The FDI inflow-GFCF ratio increased from 2.5 in 1991 to nearly 10 per cent in 2015, for the world as a whole. For India, it was very minuscule in 1991 (0.1 per cent) but was 7 per cent in 2015.

The FDI outflow-GFCF ratio more than doubled from less than 4 per cent to more than 8 per cent between 1991 and 2015, for the world as a whole. FDI outflow represents investment in other countries. This ratio is much higher for developed countries (12 per cent in 2015 – nearly 4 times the figure for developing countries). For India, it was 1.2 per cent in 2015 compared hardly anything in 1991.

5. FDI Inward Stock-GDP Ratio

FDI inward stock increased from about 10 per cent to 34 per cent between 1991 to 2015, for the world as a whole (FDI stock is the cumulative FDI inflow till the date). For developed countries, these figures were about 10 per cent and 37 per cent, and for developing countries, these were about 11 per cent and 29 per cent. For Hong Kong, it is more than 500 per cent, indicating the fabulous role of FDI in that country's growth. In case of India, it increased from less than one per cent (0.6) to nearly 14 per cent between 1991 to 2015.

6. FDI Outward Stock-GDP Ratio

Between 1991 and 2015, the global FDI outward stock as a percentage of GDP increased more than three-fold (from about 10.6 per cent to 34 per cent). In the case of developed countries, the increase was more substantial: from 12.5 per cent to 45.5 per cent; while for developing countries, the increase was from 3.2 per cent to 18.3 per cent). For Hong Kong, the FDI outward stock in 2015 was nearly 480 per cent of the GDP.

In case of India, it increased from nearly zero per cent to 6.6 per cent.

7. International Production

A corollary of the rapidly growing international investment is the fast growing international production, i.e., production arising out of international investment.

An important indication of the growth of international business is growth of international production, i.e., production in countries other than the home country of the company. The surge in FDI is an indication of the investment that results in international production. The different FDI ratios mentioned reflect the increasing role of foreign investment in boosting global production.

The increase in the sales of the foreign affiliates (FA) of companies is a reflection of the growth of international production. Between 1990 and 2015, sales of FAs increased more than seven times (from $5 trillion to nearly $37 trillion. Foreign sales now account for about two-thirds of the total sales of the 100 largest multinational enterprises (MNEs).

During the 25 years, the total assets of FAs increased 23 times (from $4,595 billion to $1,05,778 billion).

Yet another indication is the growth of foreign employment of FAs of MNEs (from about 21 million in 1990 to about 80 million in 2015. There has been a growing trend among multinational enterprises (MNEs) to produce in foreign countries for the global market, like in developing countries such as China because of reasons like cheap labour.

8. Global Supply Chain and Sourcing

There has been a tremendous expansion of global supply chain and global sourcing. Global supply chain and global sourcing go hand in hand.

Global supply chain management is the integrated operations of different phases of business operations spread across different locations globally so as to achieve optimum results.

The R&D of a product may be done in one country, production may be carried out in some other countries, often using raw materials, parts/components sourced globally, financing too may be global, and the product may be marketed globally.

In short, the supply chain extends from technology sourcing and development through production to distribution and marketing. See Chapter 9 for details.

Importance of International Business to Firms

International business may be important to a firm for various reasons. The factors which motivate or provoke firms to go international may be broadly divided into two groups, viz., the pull factors and the push factors.

The *pull factors*, most of which are *proactive reasons*, are those forces of attraction which pull the business to the foreign markets. In other words, companies are motivated to internationalise because of the attractiveness of the foreign market. Such attractiveness include, broadly, the relative profitability and growth prospects.

The *push factors* refer to the compulsions of the domestic market, like saturation of the market, which prompt companies to internationalise. Most of the push factors are *reactive reasons*.

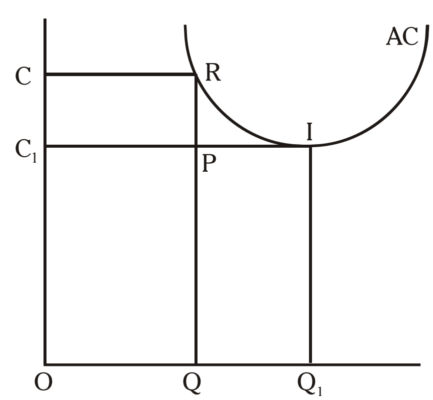
A firm may go international either due to push factors or pull factors.

Important reasons for going international are described below:

1. Profit Advantage: International business may help to improve the bottom line of a firm. Even when international business is less profitable than the domestic, it could increase the total profit. There are many companies which make major share of their profits from the foreign markets. There are also MNCs which earn more than 100 per cent of their profits from foreign markets.

Further, in certain cases, international business can help increase the profitability of the domestic business. This is illustrated with the help of Figure 1.2.

IMPACT OF EXPORTS ON AVERAGE UNIT COST **FIGURE 1.2**



In the figure, AC is the average cost curve. The average cost of production per unit will be the lowest if the plant is operated at optimum capacity, i.e., if the quantity of production is Q_1. However, because of the domestic demand constraint the output level is only Q and the corresponding average cost is C. If the company can export QQ_1 quantity, it can operate at optimum capacity and reduce the average cost by CC_1. Under such a situation exporting even on no-loss no-profit basis is advisable because by optimum utilisation of the capacity the profitability of the domestic business is increased. In the above example, the profitability per unit will be increased by CC_1 and the total profit from domestic business will increase by CC_1 PR. Thus, exporting increases, in this case, the profit from domestic business without any increase in price or sales.

One of the important motivations for foreign investment is to reduce the cost of production (by taking advantage of the cheap labour, for example). While in some cases, the whole manufacturing of a product may be carried out in foreign locations, in some cases only certain stages of it are done abroad. Almost 20 per cent of the merchandise imported into the United States is manufactured by foreign branches of American companies. Several American companies ship parts and components to overseas locations where the labour-intensive assembly operations are carried out and then the product is brought back home. The North American Free Trade Agreement comprising the US, Canada and Mexico is expected to encourage large relocation of production to Mexico where the labour is substantially cheap.

Globalisation can be a strategy to expand the market.

2. Growth Opportunities: An important reason for going international is to take advantage of the opportunities in other countries. MNCs are getting increasingly interested in a number of developing countries as the income and population are rapidly rising in these countries. Of the one billion people estimated to be added to the world population between 1999 and 2014, only about three per cent will be in the high income economies.

Foreign markets, both developed country and developing country, provide enormous growth opportunities for the developing country firms too. For example, in recent years, a number of Indian pharmaceutical firms have achieved a much faster growth of their foreign business than the domestic. The US market alone is expected to contribute as much as half of the total sales of Ranbaxy shortly.

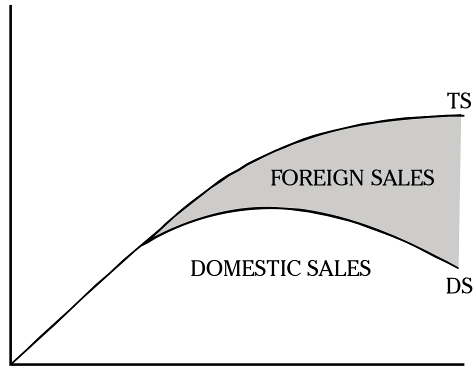
3. Domestic Market Constraints: Domestic demand constraints drive many companies to expanding the market beyond the national border.

The market for a number of products tend to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. In the United States, for example, the stock of several consumer durables like cars, T.V. sets, etc., exceed the total number of households. Estimates are that in the first quarter of the 21st century, while the population in some of the advanced economies would saturate or would grow very negligibly, in some others there would be a decline. Such demographic trends have very adverse effects on certain lines of business. For example, the fall in the birth rate implies contraction of market for several baby products.

When the domestic market is declining, as is the case with several products in the developed countries, foreign markets may provide growth opportunities, as indicated in Figure 1.3.

Another type of domestic market constraint arises from the scale economies. The technological advances have increased the size of the optimum scale of operation substantially in many industries making it necessary to have foreign market, in addition to the domestic market, to take advantage of the scale economies. It is the thrust given to exports that enabled certain countries like South Korea to set up economic size plants. In the absence of foreign markets, domestic market constraint comes in the way of benefiting from the economies of scale in some industries. For example, for a certain chemical product, the minimum economic size of the plant was 35,000 tonnes but the demand for it in India by the end of the last century was expected to be less than 10,000 tonnes.

INTERNATIONAL BUSINESS AND PLC **FIGURE 1.3**



Domestic market constraints may push for globalisation.

Particularly when the domestic market is very small, internationalisation is the only way to achieve significant growth. For example, Nestle derives only about two per cent of its total sales from its home market, Switzerland. Similarly, with only 8 per cent of the total sales coming from the home market, Holland, many different national subsidiaries of the Philips have contributed much larger share of total revenues than the parent company.

Domestic recession often provokes companies to explore foreign markets. One of the factors which prompted the Hindustan Machine Tools Ltd. (HMT) to take up exports very seriously was the recession in the home market in the late 1960s. The recession in the automobile industry in the early 1990s, similarly, encouraged several Indian auto component manufacturers to explore or give a thrust to foreign markets.

Even when the domestic market presents good growth prospects, foreign markets may be more attractive. For example, a number of Indian pharmaceutical firms have been deriving major part of their growth from abroad. The US generics market, for instance, provides an enormous opportunity for Indian firms. The size of this market will expand substantially as a number of products will be going off-patent in the near future in the US.

4. Competition: Competition may become a driving force behind internationalisation. A protected market does not normally motivate companies to seek business outside the home market. Until the liberalisations which started in July 1991, the Indian economy was a highly protected market. Not only that the domestic producers were protected from foreign competition but also domestic competition was restricted by several policy induced entry barriers, operated by such measures as industrial licensing and the MRTP regulations. Being in a seller's market, the Indian companies, in general, did not take the foreign market seriously. The economic liberalisation, ushered in India since 1991, which has increased competition from foreign firms as well as from those within the country, have, however, significantly changed the scene. Many Indian companies are now systematically planning to go international in a big way.

Globalisation is also a competitive strategy.

Many companies also take an offensive international competitive strategy by way of counter-competition. The strategy of *counter-competition* is to penetrate the home market of the potential foreign competitor so as to diminish its competitive strength and to protect the domestic market share from foreign penetration.

5. Government Policies and Regulations: Government policies and regulations may also motivate internationalisation. There are both positive and negative factors which could cause internationalisation.

Many governments give a number of incentives and other positive support to domestic companies to export and to invest in foreign countries. Similarly, several countries give a lot of importance to import development and foreign investment.

Sometimes, as was the case in India, companies my be obliged to earn foreign exchange to finance their imports and to meet certain other foreign exchange requirements like payment of royalty, dividend, etc. Further, in India, permission to enter certain industries by the large companies and foreign companies was subject to specific export obligation.

There are government policies which encourage and deter globalisation.

Some companies also move to foreign countries because of certain regulations, like the environmental laws in advanced countries.

Government policies which limit the scope of business in the home country may also provoke companies to move to other countries. With the recent changes in the government of India's economic policy, the situation, however, has changed. Many Indian companies are entering international market or are expanding their international operations because of positive reasons.

6. Monopoly Power: In some cases, international business is a corollary of the monopoly power which a firm enjoys internationally. Monopoly power may arise from such factors as monopolisation of certain resources, patent rights, technological advantage, product differentiation etc. Such monopoly power need not necessarily be an absolute one but even a dominant position may facilitate internationalisation. Similarly, exclusive market information (which includes knowledge about foreign customers, marketplaces or market situations not widely shared by other firms) is another proactive stimulus.

7. Spin-off Benefits: International business has certain spin-off benefits too. International business may help the company to improve its domestic business; international business helps improve the image of the company. Mr. B.K. Khaitan, M.D., Wires and Fabriks, points out that there will always be the 'white skin' advantage associated with exporting — when domestic consumers get to know that the company is selling a significant portion of the production abroad, they will be more inclined to buy from such a company. International business, thus, becomes a means of gaining better market share domestically. Further, exports may have pay-offs for the internal market too by giving the domestic market better products.

Further, the foreign exchange earnings may enable a company to import capital goods, technology, etc., which may not otherwise be possible in countries like India.

Another attraction of exports is the economic incentives offered by the government**.**

8. Strategic Vision: The systematic and growing internationalisation of many companies is essentially a part of their business policy or strategic management. The stimulus for internationalisation comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation. Many companies in India, like several pharmaceutical firms, have realised that a major part of their future growth will be in the foreign markets. There are a number of corporations which are truly global. Planning of manufacturing facilities, logistical systems, financial flows and marketing policies in such corporations are done considering the entire world as it is and a single market — a borderless world.

Globalisation is an important element of the corporate strategy.

The prospects and problems of international business. Market selection, the *modus operandi*, and the business strategies to be adopted in different markets, however, depend to a lot on the international business environment. A thorough understanding of the business environment, therefore, a prerequisite for making any strategic decision.

AN OVERVIEW OF BUSINESS ENVIRONMENT

Business Environment consists of all those factors that have a bearing on the business. Business decisions are influenced by the internal and external environments.

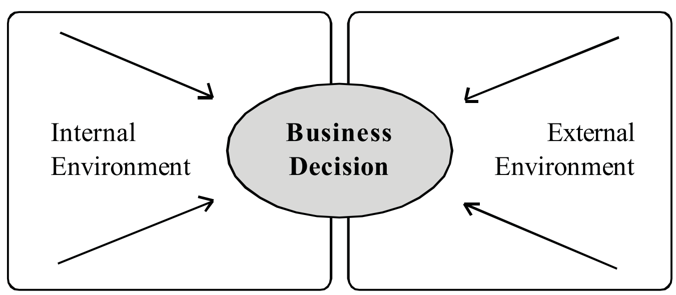
An organisation must have a strategy to achieve its mission/objectives/goals. Strategy is sometimes defined as establishing a proper *firm-environment fit.* Indeed, the mission/objectives/goals themselves should be based on an assessment of the external environment and the organisational factors (i.e., the internal environment).

Business decisions are conditioned by two broad sets of factors, *viz.,* the internal environment and the external environment.

The external environment has, broadly, two components, *viz.,* business opportunities and threats to business. Similarly, the organisational environment has two components: strengths and weaknesses of the organisation. Thus, strategy formulation is properly pitting the organisational factors (the internal environment) against the opportunities and threats in the external environment. Business decisions are conditioned by two broad sets of factors, *viz.,* the internal environment and the external environment.

A SWOT analysis (analysis of the strengths and weaknesses of the organisation and opportunities and threats in the environment), therefore is one of the first steps in the strategic management process. Business dynamics, to a large extent, is a dependent factor — it depends on, *inter alia,* the environmental dynamics. Hence, the importance of environmental analysis.

FACTORS INFLUENCING BUSINESS DECISION **FIGURE 1.4**



LEVELS OF ENVIRONMENT

On the basis of the extent of intimacy with the firm, the environmental factors may be classified in to different types or levels. As indicated above, there are, broadly, two types of environment, the internal environment, i.e., factors internal to the firm and external environment, i.e., factors external to the firm which have relevance to it.

The internal factors are generally regarded as *controllable factors* because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organisation and functional means, such as marketing mix, to suit the environment.

The external factors, on the other hand, are, by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geophysical factors, etc., are, therefore, generally regarded as uncontrollable factors.

It may, however, be noted that a firm may not sometimes have complete control over all the internal factors. Also, it is sometimes possible to change certain external factors.

The business environment is broadly divided into internal environment and external environment.

Some of the external factors have a direct and intimate impact on the firm (like the suppliers and distributors of the firm). These factors are classified as micro-environment, also known as task environment and operating environment. There are other external factors which affect an industry very generally (such as industrial policy, demographic factors etc.). They constitute what is called macro-environment, general environment or remote environment.

We may, therefore consider the business environment at three levels.

- Internal environment.
- Micro-environment/task environment/operating environment.
- Macro-environment/general environment/remote environment.

Although business environment consists of both the internal and external environments, many people often confine the term to the external environment of business. In this book too, in the subsequent chapters, the term refers mostly to external environment of business.

INTERNAL ENVIRONMENT

The important internal factors which have a bearing on the strategy and other decisions are outlined below.

Value System

The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organisation, business policies and practices. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organisation is an important factor contributing to success.

The value system of JRD Tata and the acceptance of it by others who matter were responsible for the voluntary incorporation in the Articles of Association of TISCO, its social and moral responsibilities to consumers, employees, shareholders, society and the people.

After the EID Parry group was taken over by the Murugappa group, one of the most profitable businesses (liquor) of the ailing Parry group was sold off as the liquor business did not fit into the value system of the Murugappa group.

The value system and ethical standards are also among the factors evaluated by many companies in the selection of foreign business partners.

Mission and Objectives

The business domain of the company, priorities, direction of development, business philosophy, business policy, etc., are guided by the mission and objectives of the company. The Indian Oil Corporation nurtures the vision of *becoming a transnational energy major, and is diversifying its products and services by entering into related areas, both upstream and downstream, including E&P, LNG, petrochemicals, power, fuel management and consultancy services*. Ranbaxy's thrust into the foreign markets and development have been driven by its mission *to become a research-based international pharmaceutical company* The *vision* of *Dr. Reddy's Laboratories* is *to become a discovery-led global pharmaceutical company*. The *vision* of TCS was *to be among the global top 10 by 2010.* The *vision* of Asian Paints is *to become one of the top five decorative coatings companies worldwide by leveraging its expertise in the higher growth emerging markets. Simultaneously, the company intends to build long-term value in the industrial coatings business through alliances with established global partners.*

Management Structure and Nature

The internal environment reflects the strengths and weaknesses of an organisation.

The organisational structure, the composition of the Board of Directors, extent of professionalisation of management, etc., are important factors influencing business decisions. Financial institutions have large shareholding in many Indian companies. The stand of nominees of the FIs could be very decisive in several critical instances. The roles they played when there was an NRI takeover attempt of DCM and the ITC-BAT controversies are well-known.

Internal Power Relationship

Factors like the amount of support the top management enjoys from different levels of employees, shareholders and Board of Directors have important influence on the decisions and their implementation.

The relationship between the members of Board of Directors is also a critical factor. For example, consider the difference of opinion between the ITC and BAT and their impact on the future of ITC, including its diversification plans. The role of the nominees of the financial institutions in the Board of ITC also needs to be noted here.

Human Resources

The characteristics of the human resources like skill, quality, morale, commitment, attitude, etc., could contribute to the strength and weakness of an organisation. Some organisations find it difficult to carry out restructuring or modernisation because of resistance by employees whereas they are smoothly done in some others.

The involvement, initiative, etc., of people at different levels may vary from organisation to organisation. The organisational culture and overall environment have bearing on them. John Towers, MD, Rover Group, observes that a Japanese company of 30,000 employees is 30,000 process improvers. In a Western company, it is 2,000 process improvers and 28,000 workers.[5] And in an Indian company?

Company Image and Brand Equity

The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products, etc. Brand equity is also relevant in several of these cases.

Other Factors

There are a number of other internal factors which contribute to the business successes/ failures or influence the decision making. They include the following:

1. *Physical Assets and Facilities* like the production capacity, technology and efficiency of the productive apparatus, distribution logistics, etc., are among the factors which influence the competitiveness of a firm. For example, recognising fully well the importance of quality in the pharmaceutical industry, particularly for a global player, in the case of Core Healthcare not only there is no compromise on quality but also the company made the quality norms stricter than international or other relevant standards and the quality mantra has been well imbibed throughout the organisation.

2. *R&D and Technological Capabilities,* among other things, determine a company's ability to innovate and compete.

3. *Marketing Resources* like the organisation for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency. They are important also for brand extension, new product introduction, etc.

4. *Financial Factors* like financial policies, financial position and capital structure are also important internal environment affecting business performances, strategies and decisions.

EXTERNAL ENVIRONMENT

As stated earlier, the external business environment consists of a micro-environment and a macro-environment.

The Micro-environment is also known as the Task Environment and Operating Environment because the micro-environmental forces have a direct bearing on the operations of the firm.

MICRO-ENVIRONMENT

The Micro-environment is also known as the Task Environment and Operating Environment because the micro-environmental forces have a direct bearing on the operations of the firm.

"The micro-environment consists of the factors in the company's immediate environment"[6] that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the publics."[7] The macro-environment consists larger societal forces that affect all the actors in the company's micro-environment — namely, the demographic, economic, natural, technical, political and cultural forces."[8]

It is quite obvious that the micro-environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. For example, a firm which depends on a supplier may have a supplier environment which is entirely different from that of a firm whose supply source is different. When competing firms in an industry have the same micro elements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

Suppliers

An important force in the micro-environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious. Uncertainty regarding the supply or other supply constraints often compel companies to maintain high inventories causing cost increases.

Because of the sensitivity of the supply, many companies give high importance to Vendor development. Vertical integration, where feasible, helps solve the supply problem. It is very risky to depend on a single supplier because a strike, lockout or any other production problem with that supplier may seriously affect the company. Similarly, a change in the attitude or behaviour of the supplier may also affect the company. Hence, multiple sources of supply often help reduce such risks.

The supply management assumes more importance in a scarcity environment. "Company purchasing agents are learning how to "wine and dine" suppliers to obtain favourable treatment during periods of shortages. In other words, the purchasing department might have to "market" itself to suppliers."[9]

Recognising the critical importance of the supply factor, companies all around the world are increasingly resorting to *partnering/relationship marketing.* (For details see the author's *Industrial Marketing*, Himalaya Publishing House). Partnering is becoming more and more international and this provides a challenging opportunity for Indian suppliers to become international players.

Customers

As it is often exhorted, the major task of a business is to create and sustain customers. A business exists only because of its customers. Monitoring the customer sensitivity is, therefore, a prerequisite for the business success.

A company may have different categories of consumers like individuals, households, industries and other commercial establishments, and government and other institutions. For example, the customers of a tyre company may include individual automobile owners, automobile manufacturers, public sector transport undertakings and other transport operators.

Depending on a single customer is often too risky because it may place the company in a poor bargaining position, apart from the risks of losing business consequent to the winding up of business by the customer or due to the customer's switching over to the competitors of the company.

The choice of the customer segments should be made by considering a number of factors including the relative profitability, dependability, stability of demand, growth prospects and the extent of competition.

With the growing globalisation, the customer environment is increasingly becoming global. Not only that the markets of other countries are becoming more open, the Indian market is becoming more exposed to the global competition and the Indian customer is becoming more "global" in his shopping.

Competitors

A firm's competitors include not only the other firms which market the same or similar products but also all those who compete for the discretionary income of the consumers. For example, the competition for a company's televisions may come not only from other T.V., manufacturers but also from two-wheelers, refrigerators, cooking ranges, stereo sets and so on and from firms offering savings and investment schemes like banks, Unit Trust of India, companies accepting public deposits or issuing shares or debentures, etc. This competition among these products may be described as *desire competition* as the primary task here is to influence the basic desire of the consumer. Such desire competition is generally very high in countries characterised by limited disposable incomes and many unsatisfied desires (and, of course, with many alternatives for spending/investing the disposable income).

Competition has several dimensions.

If the consumer decides to spend his discretionary income on recreation (or recreation-cum-education) he will still be confronted with a number of alternatives to choose from like T.V., stereo, two-in-one, three-in-one, etc. The competition among such alternatives which satisfy a particular category of desire is called *generic competition.*

If the consumer decides to go in for a T.V., the next question is which form of the T.V. — black and white or colour, with remote control or without it, etc. In other words, there is a *product form competition.* Finally, the consumer encounters the *brand competition,* i.e., the competition between the different brands of the same product form.

An implication of these different demands is that a marketer should strive to create primary and selective demand for his products.

Consequent to the liberalisation, the competitive environment in India has been undergoing a sea change. Many companies restructured their business portfolio and strategies. In many industries where a seller's market existed, a buyer's market has emerged.

The competitive environment is detailed in the section *Competitive Structure of Industries* later in this chapter.

Marketing Intermediaries

The immediate environment of a company may consist of a number of marketing intermediaries which are "firms that aid the company in promoting, selling and distributing its goods to final buyers."[10]

Marketing intermediaries help connect the company with the consumers.

The marketing intermediaries include middlemen such as agents and merchants who "help the company find customers or close sales with them",[11] physical distribution firms which "assist the company in stocking and moving goods from their origin to their destination"[12] such as warehouses and transportation firms; marketing service agencies which "assist the company in targeting and promoting its products to the right markets"[13] such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risks.

Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of the link, or a wrong choice of the link, may cost the company very heavily. Retail chemists and druggists in India once decided to boycott the products of a leading company on some issue such as poor retail margin. This move for collective boycott was, however, objected to by the MRTP Commission; but for this the company would, perhaps, have been in trouble. Hindustan Lever too faced major challenge when it faced a collective boycott in Kerala on the issue of trade margin.

Public

A company may encounter certain public in its environment. "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interests."[14] Media public, citizens, action publics and local public are some examples.

Some companies are seriously affected by such public. For example, one of the leading companies in India was frequently under attack by the media public, particularly by a leading daily which was allegedly bent on bringing down the share prices of the company by tarnishing its image. Such exposures or campaigns by the media might even influence the government decisions affecting the company. Many companies are also affected by local public. Environmental pollution is an issue often taken up by a number of local public. Actions by local public on this issue have caused some companies to suspend operations and/or take pollution abatement measures.

Growth of consumer publics is an important development affecting business. It is wrong to think that all public are threats to business. Some of the actions of the public may cause problems for companies. However, some public are an opportunity for the business. Some businessmen, for example, regard consumerism as an opportunity for the business. The media public may be used to disseminate useful information. Similarly, fruitful cooperation between a company and the local public may be established for the mutual benefit of the company and the local community.

International business is facing a growing challenge from public, from both within the country and outside.

International business is facing a growing challenge from public, from both within the country and outside. Voluntary organisations have been mounting up protests against child labour, sweat labour, cruelty against animals, environmental problems, deindustrialisation resulting from imports and so on. Exports of developing countries, particularly, are affected by such developments.

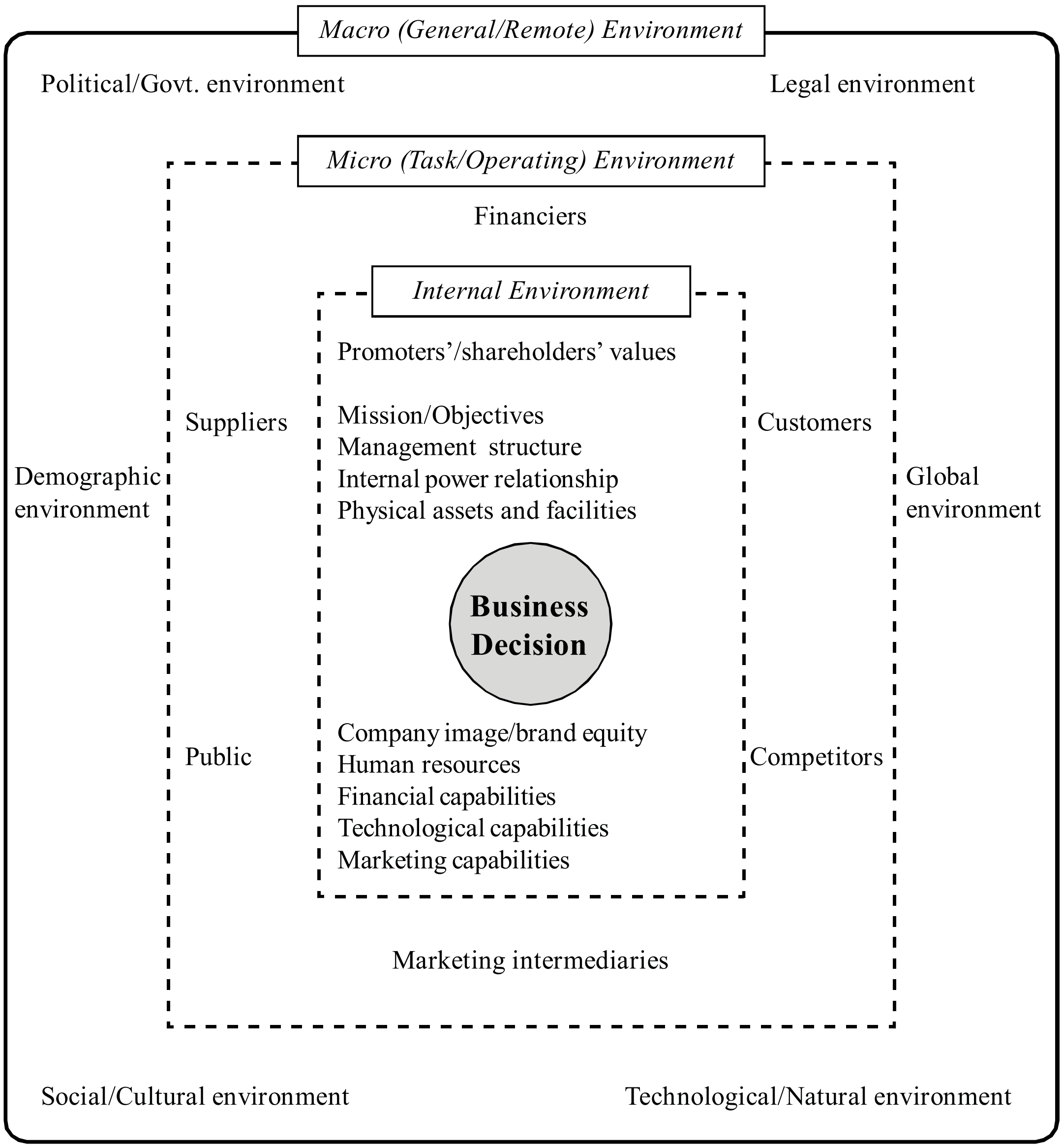
MACRO-ENVIRONMENT

The Macro-environment is also known as General Environment and Remote Environment. The macro forces are, generally, more uncontrollable than the micro forces.

A company and the forces in its micro-environment operate in a larger macro environment of forces that shape opportunities and pose threats to the company. The Macro-environment is also known as General Environment and Remote Environment. The macro forces are, generally, more uncontrollable than the micro forces. As the macro-environment is uncontrollable, the success of a company depend on its adaptability to the environment. For example, if the cost of the imported components increases substantially because of the depreciation of the domestic currency, a solution may be their domestic manufacture.

Important macro-environment factors include economic environment, political and regulatory environment, social/cultural Environment, demographic environment, technological environment and natural environment. The important macro-environmental factors are dealt with in other chapters.

THE BUSINESS ENVIRONMENT **FIGURE 1.5**



ENVIRONMENT OF INTERNATIONAL BUSINESS

A firm in international business encounters four different sets of external environment:

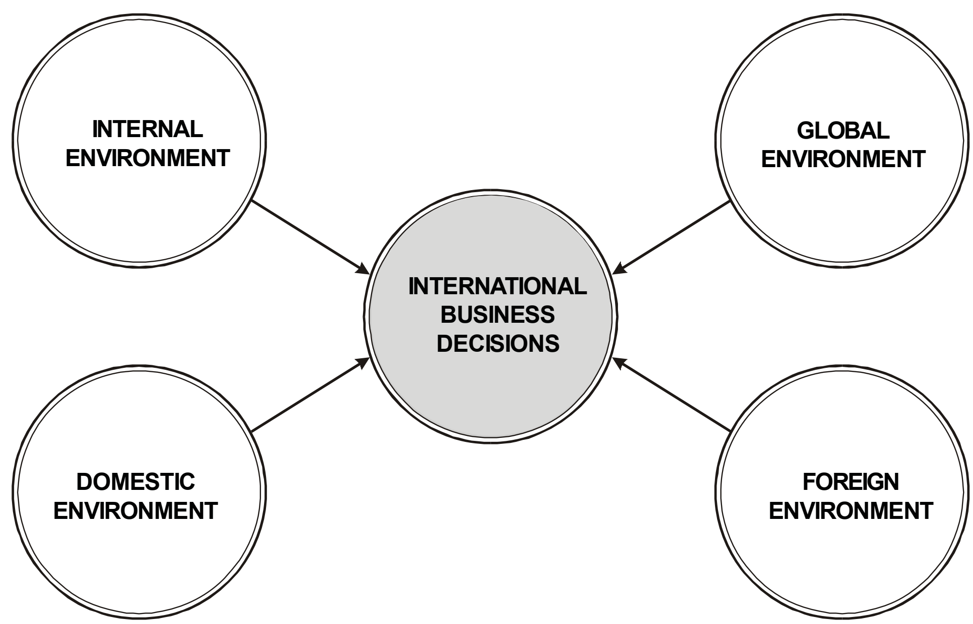
- Internal environment
- Domestic environment
- Foreign environment
- Global environment

A company which wants to or does business abroad has a relevant home country environment. For example, there may be government policies/regulations governing foreign business of domestic companies. In many cases the domestic micro- and macro-environments have a bearing, but in some cases it is the macro-environment that is mostly important. For a company which does not manufacture or source anything domestically for the foreign business the domestic micro-environment may not be very relevant. (It may also be noted that in several cases the decision to manufacture domestically anything for the foreign market is based on an assessment of the domestic micro environment too.)

Foreign environment here refers to the environment of the relevant foreign market. In the earlier sections of this chapter we have seen the important components of the business environment. The nature of these components may differ between different markets. The difference in the external environment may even necessitate, in some cases, modification of the internal environment.

The global environment refers to those global factors which are relevant to business, such as the WTO principles and agreements; other international conventions/ treaties/agreements/declarations/ protocols etc.; economic and business conditions/sentiments in other countries etc. Similarly, there are certain developments, like a hike in the crude oil price, which have global impact.

FIGURE 1.6 ENVIRONMENT OF INTERNATIONAL BUSINESS



An Indian company which wants to globalise would have to adopt internationally acceptable standards and practices in several respects, like accounting and reporting, governances etc. particularly if it wants to tap the international capital market or enter into foreign collaboration. For example, if a company wants to make an ADR/GDR issue, it will have to present its external reporting according to the US GAAP (Generally Accepted Accounting Principles). Adoption of GAAP may present a different picture performance of the company. For example, the net margins of Infosys was about 12 percentage points lower according to GAAP compared to Indian accounting norms. Infosys started following more stringent accounting procedures and the gap between the two got reduced to 3 per cent from over 12 per cent.

BUSINESS ENVIRONMENT AND STRATEGIC DECISIONS IN INTERNATIONAL BUSINESS

International business involves a series of strategic decisions. Environmental analysis is a critical input required for making these decisions. An outline of these strategic decisions are given below with a view to highlight this point.

Differences between the business environments of different foreign markets necessitate a number of critical strategic decision.

International Business Decision. The first decision a company has to make, of course, is whether to take up international business or not. This decision is based on a serious consideration of a number of important factors, such as the present and future overseas opportunities, present and future domestic market opportunities, the resources of the company (particularly skill, experience, production and marketing capabilities and finance), company objectives, etc. Thus, an analysis of both the internal and external environments is essential for making the critical international business decision.

Market Selection Decision. Once it is decided to go international, the next important step is the selection of the most appropriate market. For this purpose, a thorough analysis of the potentials of the various overseas markets and their respective marketing environments is essential. Company resources and objectives may not permit a company to do business in all the overseas markets. Further, some markets are not potentially good, and it may be suicidal to waste company resources in such markets. A thorough evaluation of the organisational capabilities and analysis of the potentials and other relevant environmental factors of the foreign markets, obviously, is a prerequisite for proper selection of the overseas market(s).

Entry and Operating Decisions. There are a number of foreign market entry strategies such as licensing; franchising; exporting; countertrade; establishing abroad assembly facilities; manufacturing facilities — wholly owned or joint venture — contract manufacturing etc. A right decision regarding the entry strategy cannot be made without an environmental analysis.

Marketing Mix Decision. The foreign market is characterised by a number of uncontrollable variables. The marketing mix consists of internal factors which are controllable. The success of international marketing, therefore, depends to a large extent on the appropriateness of the marketing mix. The elements of the marketing mix — product, promotion, price and physical distribution — should be suitably designed so that it fits the foreign market environment.

International Organisation Decision. A company doing international business has also to decide about its organisational structure for effectively conducting the business, so that the exporting function may be properly performed. This decision should necessarily be based on a careful consideration of such factors as the expected volume of the business, the nature of the overseas market, the nature of the product, the size and resources of the company, and the length of its experience. The nature of the organisation structure of the company will depend on a number of factors like its international orientation, nature of business, size of business, future plans, etc.

In sum, such strategic decisions as whether a company should enter a given foreign market or not, what market entry strategy should it employ, what strategy should it adopt in respect of product, promotion, pricing and distribution, etc., are based on two sets of factors, *viz.,* the company-related factors and the foreign market-related factors. The decision as to whether to go international or not is based, in addition to the above two, on yet another set of factors, *viz.,* the domestic marketing environment.

Implications of Differences in Business Environment

It is indeed the differences in the business environment that have given rise to a specialised field of study, international business. What makes a business strategy which is successful in one

It is the differences in the marketing environment which make the international business strategy different from the domestic one.

market a failure in another market is often the differences in the business environment. In other words, the differences in the business environment may call for different strategies suit the environment of the markets. It is the differences in the marketing environment which make the international business strategy different from the domestic one.

Even a national market may be very heterogeneous, particularly if the country is geographically very vast, very populous and multicultural. The differences in the level and nature of industrialisation between different states and different regions within the states and preferences, beliefs and customs etc. of the different cultures may vary. Dissimilar weather and climatic conditions, topographical factors etc. could also be decisive factors.

In short, the basic thing is not whether the market is domestic or international but whether the business environment of the different markets is similar or dissimilar.

However, in many cases, the differences in business environment between nations are often more substantial than within a country. A detailed analysis of the business environment of the foreign countries is, therefore, an essential prerequisite for formulating international business strategies.

There are hundreds of cases of market failures emanating from the failure to properly understand the market characteristics and their implications for marketing and the resultant ill conceived marketing efforts. An analysis of the experience of leading American firms in the major markets of the world has identified that "the outstanding marketer is keenly aware of the variations from one market to another. He never thinks solely in terms of 'the Common Market'. He knows that countries, and even sections of countries, differ enormously in almost every factor critical to his market planning."[15]

As Cateora and Keaveney point out, "the key to successful international business is adaptation to the differences in the environment that usually exist from one market to another. Adaptation is not a passive process but a conscious effort on the part of the international marketer to anticipate the influences of both the foreign and domestic uncontrollable environments on a marketing mix and then to adjust the marketing mix to minimise their effects."[16]

Lee suggests [17] that the root cause of most international business problems is the **self-reference criterion (SRC)** in making decisions, that is, an unconscious reference to one's own cultural values, experiences and knowledge as the basis for decisions. The SRC is one of the most difficult to break. Lee proposes a systematic four-step framework for eliminating this form of myopia.

In many cases, it will be suicidal to ignore the peculiarities of the business environment.

- Define the problem or goal in terms of home-country cultural traits, habits, and norms.
- Define the problem or goal in terms of the foreign cultural traits, habits, and norms.
- Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.
- Redefine the problem without the SRC influence and solve for the foreign market situation.

There are a number of examples of even mighty multinationals tasting bitter failure because of their failure to adapt to the idiosyncrasies of the foreign markets. In many cases, it was the SRC which doomed them to failure. For example, Procter and Gamble (P&G) stormed into the Japanese market with American products, American managers, American sales methods and promotion strategies. The result was disastrous until the company learnt how to adapt products and marketing style to Japanese culture. P&G which entered Japan in 1973 lost money until 1987 but by 1991 Japan became its second largest foreign market. Similarly, the American company Texas Instruments which started making semiconductors in Japan in 1961 took an American approach to hiring, pay and benefits, dismissing the Japanese system of offering bonuses two times a year as impractical. The workers disagreed. Morale crumbled and the company had trouble recruiting employees. Later, when the company adopted the Japanese methods of recruiting and reward including bonuses and a promotion system based on seniority, the situation vastly changed and in 1985 it won the Deming prize for quality control, in Japan.

Apple computers and the Colgate-Palmolive products are among those which failed in Japan as they were not adapted to the Japanese market. A study of 300 major American companies doing business in Japan has revealed that most of the successful companies entered the market with the strength of a resource-driven product, a technological lead, a new to Japan concept, a differentiated marketing strategy or most likely, a combination of these.[18]

In short, the business environment is a very important determinant of business strategy. When the business environments of different countries are dissimilar, an international firm will have to design different strategies to suit the environments of these markets. In other words, to be successful in a foreign market a company should establish a strong insider position based on the marketing environment. In his famous *The Borderless World* Kenichi Ohmae, the renowned management expert and author, observes that *insiderisation* is the key to success in a foreign market. "When global success rests on market-by-market functional strength, you have to play a series of domestic games against well-defined competitors. You have to become a true *insider* in that market. If the market requires a first class sales force, you have to have one. If competition turns on dealer support programmes, that's where you have to excel. Some occasions do exist when doing better is the right, the necessary course, to follow. Still there are usually opportunities to redefine these domestic games to your own advantage."[19]

When the business environments of different countries are dissimilar, an international firm will have to design different strategies to suit the environments of these markets.

ECONOMIC ENVIRONMENT

Such economic factors as the nature and level of development of the economy, economic resources, size of the economy, economic system and economic policies, economic conditions, trends in the GNP growth rate and per capita income, nature of and trends in foreign trade, domestic supply and demand conditions are all factors relevant to business.

The global business environment is important not only for firms doing global business but also for purely domestic firms. Global economic conditions (like recession or boom), political conditions including war or conflicts, trends in prices of crude oil, other important commodities, policies/regulations of organisations like WTO, IMF and World Bank, etc. affect national economies and domestic firms too.

Important factors determining global environment are:

- Structure and trends in global economy
- Emerging global economic and business order
- Global corporate geography
- Global economic conditions
- Policies and rules of international organisations like WTO, IMF and World Bank
- Trends in global trade
- Trends in international investments

STRUCTURE AND TRENDS IN GLOBAL ECONOMY

The global economy is enormously diverse in its structure and other characteristics. According to the World Bank in 2015, the global economy was composed of 215 economies, excluding those with a population of less than 30,000. Out of these 215, the population of a large number is less than a million. On the one hand, there are economies with massive size of GDP like USA, Japan, China Germany, UK, India and France, and on the other hand, there are tiny economies like Anguilla and Cook Islands. While countries like Qatar, Luxembourg and Switzerland have very high levels of per capita income, it is palpably poor for many nations. [The statistics given in this section are mostly from World Bank sources, Reports by Goldman Sachs and *Trade and Development Reports* by UNIDO.]

Global economy is enormously diverse in terms of GDP size, income per capita, structure of economy and several other factors.

Classification of Economies

Countries vary very widely in their income levels. On the basis of per capita income, countries are broadly classified as low income, middle income and high income economies. The per capita income threshold for classification of the economies as of July 1, 2017 adopted by World Bank is shown in Table 1.1.

TABLE 1.1 CLASSIFICATION OF ECONOMIES (AS OF JULY 1, 2017)

Economic Classification	GNI Per capita
Low Income Economy	$1,005 or less
Middle Income Economy	$1,006 to $12,235
Lower Middle Income Economy	*$1,006 to $3,955*
Upper Middle Income Economy	*$3956 to $12,235*
High Income Economy	$12,236 and above

Majority of the countries (more than 100) are middle income economies, with nearly equal number coming under upper middle income and lower middle income. The next largest group is high income (about 80). The number of low income countries is about 30.

Developing countries (consisting of low and middle income economies) which are home to more than 80 per cent of the world population share only about 40 per cent of the global income.

The share of global income of LICs which have about 10 per cent of world population is only about one per cent. The income disparity is reflected by the fact that the average per capita GNI of people of HICs is about 40 times higher than in the LICs. The average per capita GNI of MICs is more than 30 times higher than that of the LICs.

Developed economies with less than 20% of world population generate about 60% of GDP.

[Please note that these estimated figures are approximations and different sources give divergent data.]

The share of developing countries in the global trade has been steadily increasing, and in 2015, they accounted for 42 per cent of global exports (up from 33 per cent in 2005).

Developing countries have significantly increased their share in the global FDI inflows, and in some of the recent years, even exceeded half of the global total. There has also been a substantial increase in the FDI outflows from the developing economies by greenfield and brownfield investments.

The differences in the levels of development and income have implications for the business.

In the developing countries, particularly in the low income economies, the demand for many categories of goods and services is limited because of the low levels of income. Even products